MMS/MRM/RIK
Mail Stop 330B2

(Address)

Dear (Title, Name):

The Minerals Management Service (MMS) has selected one or more offshore Federal leases in the Gulf of Mexico (GOM) that you operate or are a working interest owner to be included in a royalty in kind (RIK) program in which we will take crude oil royalties in kind beginning April 1, 2003.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in kind. Our authority is the Outer Continental Shelf Lands Act of 1953 (43 U.S.C. § 1353) and the royalty provisions contained in your Federal lease. For the purposes of this letter, Royalty Oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of Royalty Oil taken in kind by the Lessor will reflect and be consistent with all grants of royalty relief.

<u>Term</u>
The Lessor will take all Royalty Oil in kind from the properties listed in the enclosure beginning April 1, 2003, and will continue taking royalties in kind until we notify you that in kind status is terminated. We will provide Lessees and Operators with at least a 45-day prior written notice of termination of in kind status.

<u>Royalty Oil Delivery</u>
The delivery points for Royalty Oil produced from the properties is at the Facility Measurement Point (FMP) or first interconnect into a main pipeline, as identified in the enclosure. The Lessor or its designee will take custody and responsibility for Royalty Oil at the delivery point. You can be reimbursed for transportation and quality bank credits of Royalty Oil to any delivery points identified in the enclosure that are downstream of the FMP. If gathering upstream of the FMP has been approved by MMS, you may take this deduction on the Report of Sales and Royalty Remittance (Form MMS-2014). You will be required to report quality bank debits and credits for properties where the quality bank is passed back to the operator/producer, as allowed in applicable MMS regulations.

Royalty Oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor's points of contact identified in this letter.

You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases. During the in kind period, you will make the best effort to notify the Lessor's designated point of contact of newly producing properties flowing to the FMP identified in the enclosure. Royalty Oil from such new properties will be added to the RIK volumes at the existing delivery points only upon mutual consent of the purchaser and the Lessor.

Fulfillment of Royalty Obligations
Delivery of the accurate volume of Royalty Oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor. For properties where the Lessee has applied for deepwater royalty rate relief, you may use the proposed royalty rate in the interim before MMS/Offshore Minerals Management (OMM) approves the reduction. If OMM does not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances"). All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor's Obligation to Take
We agree to take 100 percent of the Royalty Oil delivered to the delivery point for the account of the Lessor. Using reasonable and customary industry practices, we will try to minimize imbalances with you and the Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, we will communicate with you regarding arrangements for the transfer of Royalty Oil from the delivery point. The Lessee will not incur royalty related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Communication with Lessor
No later than 10 business days before the first day of each month, you must notify the Lessor in writing via facsimile (303-231-3846) or e-mail addressed to our mailbox (rik.project@mms.gov) of the daily Royalty Oil volumes (Avails) anticipated for the following month of production for each of the delivery points identified in the enclosure. On this same schedule, for each of the delivery points, you will also provide any anticipated volume adjustments to resolve previous months' imbalances. The total volumes to be delivered to our purchaser at each of the delivery points must be indicated on the same schedule as a volume net of anticipated production plus or minus any adjustments. The Lessor understands that any such estimates are not warranties of actual deliveries but are provided to facilitate planning.

You must also use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in the enclosure; e.g., oil production levels, oil type, and/or royalty rates for the RIK contract properties.

Volume Reconciliation
You must provide the pipeline with the volume allocation for MMS' Royalty Oil separately from other take in kind owners.

You must send all volume allocation schedules provided to pipeline companies that address Royalty Oil volumes at the delivery points in the enclosure to MMS within 5 days of their submittal to the pipeline companies unless otherwise approved by MMS.

You must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. We will monitor and reconcile royalty entitlements with the Royalty Oil deliveries you make. Reconciliation will involve communication between you and the Lessor. Upon project termination, you must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

You and MMS will jointly monitor imbalances between delivered and entitled volumes of Royalty Oil. You will take timely action to remedy such imbalances through adjustments to Royalty Oil volumes delivered to MMS. Such volume adjustments will be identified in your communication of Royalty Oil volumes anticipated before the month of production (see above under "Communication with Lessor").

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- Mutually agreed upon make-up delivery schedule, or
- Cash out payment based on the contract price per the terms of Exhibit C – Contingency for Outright Purchase (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months that the imbalance occurred. Interest will accrue from 60 days after notification that cash out payment is due.
- When royalties are no longer taken in kind or after cessation of production from a lease, imbalances will be cashed out based on the MMS contract price (at the delivery point) for the last month the lease is taken in kind. Interest will accrue from 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in the enclosure will be settled in compliance with your Purchase and Sale Agreement assignments.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR) under requirements specified in MMS regulations and the MMS *Minerals Revenue Reporter Handbook* at http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf. You will not be required to report Royalty Oil for the RIK properties listed in the enclosure on the Form MMS-2014 for the term during which the Lessor takes royalty in kind, with the exception of properties noted as Royalty Relief and any retrograde or free condensate not delivered to the Lessor. You must continue to report these properties on the Form MMS-2014 per the MMS regulations. Reporting does not change for non-RIK leases.

Lessor's Designee

The Lessor may act by or through a duly authorized designee. Enclosed is a list of designees, including contacts. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf. You are allowed, but not required to direct communications to our designee. You are required to direct communications to us. We will provide written notification when the designee changes or is no longer authorized to act on our behalf for the purposes of this letter.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, measured, delivered, and, if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph in accordance with the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor's Points of Contact

Copies of all correspondence between the Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

- Volume Avails (Anticipated Volumes), Volume Allocation Schedules, and Operator Imbalance Statements:
  You will be contacted with this information.

- New Lease Production:
  Ms. Crystel Tobar
  Telephone: 303-231-3126; Fax: 303-231-3846
  E-mail: Crystel.Tobar@mms.gov or;

  Mr. Richard Fantel
  Telephone: 303-231-3502; Fax: 303-231-3846
  E-mail: Richard.Fantel@mms.gov

- Reporting Issues:
  Mr. Andy Sandoval
  Telephone: 303-231-3777; Fax: 303-231-3700
  E-mail: Alfonso.Sandoval@mms.gov

- Electronic Funds Transfer:
  Mr. Joe Romero
  Telephone: 303-231-3123; Fax: 303-231-3501
  E-mail: Joseph.Romero@mms.gov

- Marketable Condition Questions:
  Mr. Roman Geissel
  Telephone: 303-231-3226; Fax: 303-231-3473

E-mail: mailto:Roman.Geissel@mms.gov

We acknowledge that you and the Lessees have given proper notice when using the telephone number or fax number provided to communicate with us. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than 1 business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. You and the Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. This ICR is approved by Office of Management and Budget (OMB) and is titled "Royalty-in-Kind (RIK) Pilot Program—Directed Communications by Operators of Federal Oil and Gas Leases (OMB Control Number 1010-0126, expiration date May 31, 2003)." We estimate the burden for reporting is 1 hour per response.

Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1,) (4)), and the Departmental Regulations (43 CFR 2). An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

Sincerely,

Milton K. Dial
Assistant Program Director
for Royalty In Kind

Enclosure